GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3402
ANSWERED ON:18.12.2015
Debts of States
Chaudhary Shri C.R.;Patel Shri Prahlad Singh;Patole Shri Nanabhau Falgunrao;Puttaraju Shri C.S.;Singh Shri Ravneet

Will the Minister of FINANCE be pleased to state:

(a) whether the Union Government is aware that many Indian States are in debt due to aggressive borrowing and fund development without any financial discipline/self-restraint and if so, the details thereof;

(b) the ratio of aggregate liabilities of Gross Domestic Product (GDP) of various States along with the reasons for high ratio, State/UT-wise including Maharashtra, Punjab and Rajasthan;

(c) whether the Union Government has taken any step or issued a regular/periodic cautionary guidelines to rectify or reduce the debt level of the States and constituted any committee to look into financial health of States and if so, the details thereof;

(d) whether any request from such States have been received for financial assistance to meet their expenditure and if so, the details thereof including Maharashtra, Rajasthan and Punjab; and

(e) the number of States which have stabilised their debt burden during the last three years and the current year?

Answer

MINISTER OF STATE IN MINISTRY OF FINANCE
(SHRI JAYANT SINHA)

(a) to (c): As gleaned from the States' Finance Accounts and Budget/Revised Estimates, Debt to GSDP ratios of States including Maharashtra, Punjab and Rajasthan for the year 2012-13 (FA) to 2014-15 (RE) as against Thirteenth Finance Commission (FC-XIII) targets are shown at Annex. It may be seen that as per latest available States' Finance Accounts 2013-14, all States except J&K and Nagaland have achieved the annual Debt to GSDP ratios prescribed by FC-XIII for each State.

The comprehensive debt restructuring exercise was undertaken under the award of the Twelfth Finance Commission (TFC). To ameliorate the debt position of the States, TFC had recommended a Debt Consolidation and Relief Facility (DCRF) to be extended to the States during its award period of 2005-10. This involved (i) consolidation of central loans from Ministry of Finance for a fresh tenure of 20 years at an interest rate of 7.5% p.a. and (ii) waiver of repayment due against consolidated debt based on fiscal performance of States each year. Similarly, FC-XIII had recommended write-off of central loans extended to States by Ministries other than Ministry of Finance (MoF), interest reset on the loan from National Small Savings Fund (NSSF) extended to the States and consolidation of loans extended through MoF to the two States (West Bengal and Sikkim) that had not enacted their Fiscal Responsibility and Budget Management Act (FRBMAs) during TFC award period. All the States have FRBMAs in place and the Debt and Interest relief benefits, as recommended by TFC and FC-XIII, have been extended to the eligible States.

Further, the FFC for its award period 2015-20 has made observations about the limited scope for rescheduling of debt. However, it has taken into account interest payments of States in full for the purpose of determining the fiscal needs of the States and making its recommendations on devolution of taxes and revenue deficit grants to the States. FFC has prescribed fiscal roadmap for the States and inter-alia recommended that borrowing ceiling be anchored to 3% of respective State's GSDP. Accordingly, the Net Borrowing Ceiling for 2015-16 has been fixed by Ministry of Finance. The States' borrowings are regulated under Article 293 of the Constitution of India and so far during 2015-16 no State has breached its borrowing space.

(d): Post FFC, Some of the State Governments requested for providing financial assistance to meet their expenditure. Such requests received from States are normally dealt within the ambit of recommendations of the Finance Commissions and within the available Gross Budgetary Support.

(e): As gleaned from the revised budget estimates of the States for 2014-15, the debt/ GSDP ratio of respective States are within the Debt/GSDP targets prescribed by FC-XIII except Kerala, Himachal Pradesh, J&K and Nagaland, which have marginally exceeded the prescribed Debt/GSDP targets, as shown in the Annex. However, the combined Debt/ GSDP ratio for all the State has been estimated to be 24.9% in 2014-15 as against the FC-XIII Debt/GSDP target of 30.3%.
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